

Weekly Market Insights

March 2, 2020

An amazing week

To write that this past week was amazing is truly an understatement. The equity markets fell precipitously, and the high quality bond market rallied.

The Dow Jones Industrial Average fell 12.86%, the S&P, 11.49% and the NASDAQ was down 10.54%. There is no questioning why this happened. Clearly, it was the fear that the spread of the coronavirus will accelerate into a pandemic.

Coronavirus

There are predictions all over the lot; the most reasonable at the moment is that, yes, the virus will continue to spread. There have been two confirmed deaths in the United States as of this writing. It is reported that both victims were in compromised health. As we are all aware, the virus originated in China and has spread to other countries. All medical reports say that a vast majority of cases are quite mild, which of course is a positive. However, many victims have such a mild case or are asymptomatic, and are unaware that they can spread the virus. In China, the spread of the disease appears to be slowing. Without minimizing the problem, a possible conclusion would be a gradual slowing in the summer months, as has been common in the past with flu viruses. A vaccine is expected in the fall.

The Economy

The economy will certainly be affected—the question is how much. We wrote from the start that we did not think it would damage the U.S. economy enough to sink it into a recession. We maintain that belief. Prior to the onset of the coronavirus, the U.S. economy was quite strong. Certainly, the economy has been on a record growth spree, but there were no real signs of trouble. Consumer confidence did take a sharp drop, but that is to be expected. The Consumer Confidence Index can be volatile. The U.S. economy is far more dependent on

domestic activity than most economies, and job creation and wages have been just fine.

But, there will be ill effects. GDP for the first quarter will barely be affected, but by the second quarter, the effect should be stronger. GDP may come in about 1.5%. But, there is an excellent chance that U.S. GDP may spring back well above 2.0% in the third and fourth quarters, due to pent up demand and inventory rebuilding.

The Primaries

The South Carolina primary brought Joe Biden's campaign back to life. It should not surprise anyone that he won, but the magnitude was a not expected. Mr. Biden received 48.4% of the vote while Mr. Sanders was a distant second with only 13.0%. A real surprise is Ms. Warren's continued slide, as she received only 7.1% behind both Mr. Steyer and Mr. Buttigieg, both of whom have dropped out. The exiting of the two candidates should be a benefit to Mr. Biden. The next question—will Ms. Warren's falling star continue to fall and will she also drop out? We should know Wednesday morning.

What's Next?

Perhaps the most interesting questions will arise after the coronavirus problem is solved. We should be well into the campaign by then, and we will have far better understanding of where the candidates stand. The reason we feel that way is that after the primaries, candidates tend to shift more toward the ideological middle ground.

The EU will be wrestling with Brexit and if the divorce works for England, will others follow? Last but not least, China has not distinguished herself in this virus episode. Her economy is falling and she has not been making friends in Europe or Asia.

We will spend more time on these subjects next week.

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